

## Message Text

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FRB-01 INR-07 NSAE-00 RSC-01 XMB-04 OPIC-06 SP-02

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FEAE-00 INT-05 /116 W

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R 101832Z JAN 75

FM AMEMBASSY PARIS

TO SECSTATE WASHDC 5770

INFO USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL BORDEAUX

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PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EALR, EFIN, EGEN, FR

SUBJECT: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS

REF: PARIS 31015, DECEMBER 27, 1974

1. SUMMARY. GOF FINDS COMFORT IN NOVEMBER FIGURES ON  
RETAIL PRICES - UP "ONLY" 0.8 PERCENT, LESS THAN IN ANY  
MONTH IN 1974 SAVE AUGUST - AND CLAIMS VICTORY IN FIRST  
STAGE OF ANTI-INFLATION CAMPAIGN. FOLLOWING DECISION  
BY MONETARY AUTHORITIES TO REDUCE MANDATORY RESERVE  
REQUIREMENTS, COMMERCIAL BANKS MOVED DURING CURRENT WEEK  
TO REDUCE THEIR LENDING RATES BY AVERAGE OF ONE-HALF  
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POINT. IN LINE WITH UNDERSTANDING REACHED IN MARTINIQUE

BY PRESIDENTS FORD AND GISCARD D'ESTAING, GOF ON JANUARY 9 RE-VALUED ITS GOLD STOCK ON BASIS OF FREE-MARKET PRICE; AT NEW PRICE OF \$170.40 PER OUNCE, VALUE OF FRENCH GOLD STOCKS HAS BEEN INCREASED FROM \$4.3 BILLION TO \$17.2 BILLION. END SUMMARY.

2. INFLATION RATE SLOWS IN NOVEMBER, PRICE CONTROLS TIGHTENED -

RATE OF RETAIL PRICE INFLATION REGISTERED SLOWDOWN IN NOVEMBER WITH 0.8 PERCENT INCREASE OVER OCTOBER LEVELS COMPARED TO 1.3 PERCENT RISE IN PREVIOUS MONTH. INSEE (NATIONAL STATISTICS INSTITUTE) CONSUMER PRICE INDEX FOR NOVEMBER WAS 143.1 (BASE 1970 AS 100), UP FROM 141.9 IN OCTOBER AND 140.1 IN SEPTEMBER. NOVEMBER INCREASE WAS SMALLEST FOR ANY MONTH IN 1974, WITH EXCEPTION OF AUGUST (ALSO UP 0.8 PERCENT), AND BROUGHT TOTAL INCREASE IN PRICES OVER FIRST 11 MONTHS OF YEAR TO 15.5 PERCENT ANNUAL RATE.

AMONG SECTORS, SLOWDOWN WAS MOST APPARENT IN PRICES FOR SERVICES (UP ONLY 0.6 PERCENT, COMPARED TO 1.6 PERCENT INCREASE IN OCTOBER.). PRICES FOR MANUFACTURED GOODS ROSE 0.9 PERCENT (1.3 PERCENT IN OCTOBER), WHILE RETAIL FOOD PRICES INCREASED 1.0 PERCENT (1.1 PERCENT IN OCTOBER). LATTER WAS ATTRIBUTED BY FINANCE MINISTRY ANNOUNCEMENT IN LARGE PART TO INCREASES IN CAP SUPPORT PRICES - NOTABLY FOR SUGAR, BUTTER AND PASTA - WHICH BECAME EFFECTIVE OCTOBER 7 FOLLOWING DECISION BY EC COUNCIL OF AGRICULTURAL MINISTERS. (COMMENT: WHILE INCREASE IN RETAIL FOOD PRICE INDEX WAS INDEED GREATER IN OCTOBER AND NOVEMBER THAN IN FOUR PRECEDING MONTHS, FACT THAT FINANCE MINISTRY HAS POINTED FINGER AT CAP IN CONTEXT OF DOMESTIC PRICE INFLATION IS UNIQUE AND PERHAPS SIGNIFICANT PRECEDENT.)

IN ACCOMPANYING STATEMENT, FINANCE MINISTER FOURCADE SAID GOF'S GOAL OF LAST SUMMER - TO BRING RATE OF PRICE INFLATION BELOW 1 PERCENT BY END OF 1974 - HAD BEEN MET, AND ADDED THAT PRESENT RESTRICTIVE POLICIES WOULD UNCLASSIFIED

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BE CONTINUED UNTIL NEXT OFFICIAL TARGET OF 0.5 PERCENT MONTHLY RATE BY MID-1975 ATTAINED.

GOF TIGHTENED CONTROL OF PRICES AT RETAIL LEVEL ON JANUARY 1 BY FIXING PRODUCT-BY-PRODUCT CEILINGS ON RETAILERS' MARGINS - NOT TO EXCEED LEVELS OF DECEMBER 2, 1974 - REQUIRING REDUCTIONS IN SELLING PRICES SHOULD PURCHASE PRICES FALL. (PREVIOUSLY, CONTROLS WERE FIXED

FOR ENTIRE GROUPS OF ARTICLES, OR EVEN FOR A RETAILER'S  
TOTAL TURNOVER, WITH YEAR-EARLIER LEVELS AS REFERENCE.)  
AND ON DECEMBER 27 FOURCADE SHOCKED PARIS RESTAURANTEURS,  
BESET BY RISING LABOR AND OTHER COSTS, BY ORDERING  
THREE-MONTH FREEZE ON THEIR PRICES AT DECEMBER 13-19  
LEVELS.

3. LENDING RATES DROP AS RESERVE REQUIREMENTS EASED -

FRENCH COMMERCIAL BANKS CUT THEIR LENDING RATES  
BY AVERAGE OF ONE-HALF POINT DURING CURRENT WEEK,

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BRINGING THEIR PRIME RATE DOWN TO 13.95 PERCENT FROM HISTORIC PEAK OF 14.45 PERCENT, AT WHICH IT HAS BEEN HELD SINCE LAST JUNE. THIS DECISION FOLLOWED LONG NEGOTIATION BETWEEN BANKS AND MONETARY AUTHORITIES (FINANCE MINISTRY AND BANK OF FRANCE) REGARDING POSSIBILITY OF REDUCING COST OF BANK CREDIT. IN RETURN FOR LOWERING OF RATES, MONETARY AUTHORITIES REDUCED RATE OF COMPULSORY RESERVES AGAINST DEMAND DEPOSITS FROM 17 PERCENT TO 15 PERCENT.

ON THURSDAY, BANK OF FRANCE CUT ITS DISCOUNT RATE TO 12 PERCENT FROM RECORD 13 PERCENT IN FORCE SINCE LAST JUNE. EFFECTS OF THIS MOVE MORE PSYCHOLOGICAL THAN REAL, UNCLASSIFIED

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BECAUSE ORDINARILY BOF NO LONGER PROVIDES REFINANCING TO BANKS THROUGH DISCOUNT WINDOW. AT SAME TIME, IT IS A SIGN TO FRENCH FINANCIAL COMMUNITY THAT GOF WANTS TO SEE SOME EASING IN HIGH COST OF MONEY; FRENCH INTEREST RATES REMAIN NEVERTHELESS THE HIGHEST IN EUROPE.

CEILINGS ON BANK LENDING, WHICH ARE FUNDAMENTAL INSTRUMENT OF OFFICIAL POLICY OF MONETARY RESTRICTION, REMAIN IN EFFECT AT ESSENTIALLY SAME LEVELS AS HERETOFORE (SEE REFTEL). HOWEVER, THERE ARE REPORTS THAT WITH DECELERATION OF ECONOMIC GROWTH IN FRANCE, MANY BANKS ARE CURRENTLY LENDING AT LEVELS BELOW THEIR CEILINGS AS SET BY GOF.

#### 4. GOF GIVES MODEST AID TO BUILDING SECTOR -

CONTINUING TO ARTICULATE WHAT APPEARS TO BE NEW STRATEGY OF SELECTIVE ASSISTANCE TO ECONOMICALLY-DISTRESSED SECTORS, GOF HAS SHIFTED ATTENTION FROM AUTO INDUSTRY (SEE PARIS 30045) TO SLUGGISH CONSTRUCTION SECTOR. AS DISCLOSED ON JANUARY 8, HOWEVER, OFFICIAL ASSISTANCE TO BUILDING INDUSTRY MAINLY CONSISTS OF ACCELERATION IN COMMITMENT OF PUBLIC FUNDS ALREADY ALLOCATED BY 1975 BUDGET PROPOSALS OF LAST SEPTEMBER.

SUFFERING FROM TIGHT MORTGAGE MARKET AND CURTAILMENT OF BUSINESS INVESTMENT, BUILDING INDUSTRY WILL BENEFIT FROM INCREASED DEMAND FROM PUBLIC SECTOR: TWO-THIRDS OF THE 29 BILLION FRANCS IN 1975 EQUIPMENT APPROPRIATIONS WILL BE COMMITTED DURING FIRST HALF OF YEAR. GOF WILL ALSO INCREASE ITS ASSISTANCE TO PUBLIC-HOUSING PROGRAMS, INCLUDING BOTH CONSTRUCTION OF NEW HOUSING AND MAINTENANCE AND RENOVATION OF EXISTING PUBLIC HOUSING. SIMULTANEOUSLY, FRENCH MONETARY AUTHORITIES ADDRESSED SHORTAGE OF NEW CAPITAL FOR HOUSING INDUSTRY BY ALLOW-

ING 1.5 PERCENT INCREASE IN COMMERCIAL-BANK LENDING RATES FOR SPECIALIZED BUILDING LOANS, TO A MAXIMUM OF 12 PERCENT FOR TEN-YEAR FINANCING.

5. WAGES UP 3.9 PERCENT IN THIRD QUARTER -

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HOURLY WAGES INCREASED 3.9 PERCENT IN THIRD QUARTER 1974, ACCORDING TO LABOR MINISTRY STATISTICS, BRINGING OVERALL INCREASE FOR YEAR ENDING SEPTEMBER 1974 TO 20.2 PERCENT. THIRD-QUARTER INCREASE IN REAL PURCHASING POWER (0.6 PERCENT) WAS LOWEST RECORDED SINCE SPRING 1971; OVER PRECEDING 12 MONTHS REAL PURCHASING POWER ROSE 4.88 PERCENT, COMPARED TO 6.67 PERCENT IN YEAR ENDING SEPTEMBER 1973.

6. INVESTMENT LEVELS SUSTAINED, CAPACITY CONSTRAINTS EASE -

INSEE SURVEY OF INVESTMENT INTENTIONS ON PART OF INDUSTRIAL FIRMS PROJECTS 13 PERCENT INCREASE IN INVESTMENT SPENDING IN 1975 OVER 1974 LEVELS (3-4 PERCENT IN REAL TERMS); OVERALL INVESTMENT BY INDUSTRY DURING 1974 WAS SAID TO REGISTER 16 PERCENT GROWTH RELATIVE TO 1973 LEVELS. OUTLOOK FOR INVESTMENT IN CURRENT YEAR THUS ONLY MODERATELY BELOW 15 PERCENT GROWTH PROJECTED LAST JUNE. ACCORDING TO INSEE, CAPITAL-EQUIPMENT SECTOR REMAINS MOST BOUYANT IN INVESTMENT OUTLOOK WHILE SLOWDOWN IN INVESTMENT SPENDING MOST PRONOUNCED IN CONSUMER-GOODS SECTOR.

INSEE ALSO PUBLISHED RESULTS OF END-YEAR STUDY OF CAPACITY UTILIZATION IN FRENCH INDUSTRY, SHOWING PROPORTION OF FIRMS OPERATING AT FULL CAPACITY HAD DECLINED TO 25 PERCENT FROM 39 PERCENT LAST JUNE. EASING OF PRODUCTION BOTTLENECKS REGISTERED IN ALL SECTORS OF INDUSTRY,

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BUT WAS MOST PRONOUNCED IN CAPITAL-EQUIPMENT AND  
INTERMEDIATE-GOODS SECTORS.

7. TERMS OF TRADE IMPROVE IN THIRD QUARTER -

FRENCH TERMS OF TRADE CONTINUED TO IMPROVE IN THIRD  
QUARTER 1974, REFLECTING 3.6 PERCENT INCREASE IN EXPORT  
PRICES OVER SECOND-QUARTER LEVELS WHILE IMPORT PRICES  
ROSE 2.6 PERCENT.

FRENCH TERMS OF TRADE  
(INDICES OF AVERAGE VALUE;  
BASE 1966 AS 100)

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1973(YR.) 1974-I 1974-II 1974-III

EXPORT PRICES	137.3	154.2	171.8	177.9
IMPORT PRICES	129.3	175.2	193.3	198.3

TERMS OF TRADE 106.2 88.0 88.9 89.7

PROGRESSIVE IMPROVEMENT IN TERMS OF TRADE MAY CONTINUE THROUGH FOURTH QUARTER AS WELL, DUE TO STEADY DECLINE IN FRANCE'S RAW-MATERIAL IMPORT BILL. OVERALL INSEE PRICE INDEX FOR COMMODITIES IMPORTED BY FRANCE (BASE 1968 AS 100) DROPPED 3 PERCENT FROM 194.9 IN OCTOBER TO 189.0 IN NOVEMBER; INDEX HAD DECLINED 6.3 PERCENT FROM NOVEMBER 1973 LEVEL. INDUSTRIAL PRIMARY-PRODUCT PRICES FELL 2 PERCENT (FROM 163.3 IN OCTOBER TO 159.6 IN NOVEMBER), WHILE PRICE INDEX FOR PRIMARY FOOD-STUFFS DROPPED 4 PERCENT FROM 249.7 IN OCTOBER TO 240.1 IN NOVEMBER.

8. STEEL OUTPUT INCREASES -

FRENCH PRODUCTION OF CRUDE STEEL AMOUNTED TO 2.3 BILLION TONS IN NOVEMBER, AN INCREASE OF 6.6 PERCENT OVER NOVEMBER 1973. FOR FIRST 11 MONTHS OF 1974 STEEL PRODUCTION WAS 7.6 PERCENT GREATER THAN IN CORRESPONDING PERIOD IN 1973, FOR TOTAL OF 24.7 BILLION TONS YEAR TO DATE.

9. OTHER REPORTS SUBMITTED DURING THE PERIOD -

TELEGRAMS

00239 ASSESSMENT OF FRENCH ECONOMIC  
PROSPECTS FOR 1975 JANUARY 6, 1975

00327 ECONOMICS MINISTER FOURCADE  
ON CURRENT INTERNATIONAL  
FINANCIAL TOPICS JANUARY 7, 1975

00458 REVALUATION OF BANK OF FRANCE  
GOLD STOCK JANUARY 8, 1975  
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00612 REVALUATION OF BANK OF FRANCE  
GOLD STOCK JANUARY 9, 1975

AIRGRAMS

A-638 FRENCH FOREIGN EXCHANGE  
HOLDINGS DECEMBER 27, 1974

A-2 FRENCH FOREIGN EXCHANGE  
HOLDINGS JANUARY 3, 1975  
RUSH

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## Message Attributes

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**Draft Date:** 10 JAN 1975  
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**Disposition Case Number:** n/a  
**Disposition Comment:**  
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**Subject:** FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS  
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